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DOCUMENT RESUME

02188 - [A4332315] (~~Restricted~~)

[DOD's Reexamination of Its Fiscal Year 1978 Budget as It Relates to Reimbursements of Foreign Military Training].  
FGMSD-77-40; B-159835. May 6, 1977. 3 pp. + 1 appendix (1 pp.).

Report to Rep. George H. Mahon, Chairman, House Committee on Appropriations; by Paul G. Dembling, Acting Comptroller General.

Issue Area: Accounting and Financial Reporting (2800).  
Contact: Financial and General Management Studies Div.  
Budget Function: Miscellaneous: Financial Management and Information Systems (1002).  
Organization Concerned: Department of Defense; Department of the Navy; Department of the Air Force; Department of the Army.  
Congressional Relevance: House Committee on Appropriations.

The Department of Defense (DOD) reexamined its fiscal year 1978 budget as it related to reimbursements of foreign military training. DOD reevaluated its pricing policy for foreign military training, which includes the International Military Education and Training Program as well as foreign military sales training. Findings/Conclusions: In general, the Department's revisions are a major step in providing for the recovery of the full cost of training foreign students. DOD's actions indicated an intention to comply with the intent of the Congress and GAO recommendations concerning the recovery of these costs. However, under the revised pricing guidelines, prescribed factors for computing military retirement pay and the cost of other civilian benefits were too low. The revised pricing guidelines also still provide for the use of a 4% asset use charge for aircraft training in lieu of hourly aircraft use and attrition rates which would generally result in higher charges to foreign governments. It is imperative that DOD complete planned evaluations in these areas as soon as possible and revise training tuition rates as warranted. DOD's estimates of the amount of increased reimbursements resulting from the revised pricing policy appeared to be reasonable if all assumptions and computations were correct. (SC)

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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B-159835

May 6, 1977

The Honorable George H. Mahon  
Chairman, Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

Your letter of March 2, 1977, asked that we review the Department of Defense's effort to reexamine its fiscal year 1978 budget request as it relates to reimbursements for activities which support foreign military sales. You also asked the Defense Department to identify those areas in the fiscal year 1978 budget where direct funding could be reduced through offsetting reimbursements from foreign military sales. In discussions with Defense Department officials your office agreed that the reexamination was to be limited to reimbursements for foreign military training and transportation services.

This report covers our review of Defense's reexamination of reimbursements for foreign military training. As agreed with your office, we have separately reported on our review of reimbursements for transportation services. (LCD-77-225, May 4, 1977.)

We previously reported (FGMSD-76-91, December 14, 1976; and FGMSD-77-17, March 17, 1977) that the Defense Department's pricing policy for foreign military training resulted in the loss of millions of dollars and made several recommendations for improvement of pricing and billing systems.

The Defense Department's reexamination of its fiscal year 1978 budget for training centered around a reevaluation of its pricing policy. On April 25, 1977, the Defense Department briefed your office concerning its plans to revise its pricing policy for foreign military training which includes training under the International Military Education and Training Program as well as foreign military sales training. On May 4, 1977, the Department informed your office that, as a result of these revisions which were finalized on May 3, 1977, reimbursements to the military services appropriations for foreign military training would be increased by about \$24.3 million during fiscal year 1978 permitting a reduction in direct funding of this amount. In addition the Air Force determined for its foreign military training alone that as a result of the revised guidelines an estimated additional

\$11.8 million in reimbursements that would be credited to the Miscellaneous Receipts of the Treasury. As discussed in our December 14, 1976, report to Congress, Defense regulations require that costs recovered for military retirement pay and depreciation of assets be deposited in Miscellaneous Receipts. Appendix I shows a breakout of the \$24.3 million by financing appropriation and military service.

#### PLANNED REVISIONS TO PRICING POLICY

In general the Department's revisions are a major step in providing for the recovery of the full cost of training foreign students. The Department's actions indicate an intention to comply with the intent of the Congress and our recommendations concerning the recovery of the cost of training foreign military students.

There are issues, however, which remain to be resolved. Under the revised pricing guidelines, prescribed factors for computing (1) military retirement pay and (2) the cost of other civilian benefits, such as retirement and health benefits, are too low. The same issue is addressed on pages 23 and 24 of our December 14, 1976, report. Defense officials advised us that the Department plans to reevaluate the retirement and benefit factors and will revise them based on the results of the reevaluation.

We also noted that the revised pricing guidelines still provide for the use of a 4 percent asset use charge for aircraft training in lieu of hourly aircraft use and attrition rates which would generally result in higher charges to foreign governments. Defense officials advised us that although they do not plan to use hourly use and attrition rates, they will evaluate the validity of the 4 percent charges and will revise them if warranted.

It is imperative that the Department complete these evaluations as soon as possible and revise training tuition rates as warranted. As agreed with your office, we will monitor the Department's progress in making these evaluations and will review the results.

#### IMPACT OF THE REVISIONS ON FISCAL YEAR 1978 REIMBURSEMENTS

We received Defense's estimates of the amount of increased reimbursements resulting from the revised pricing policy on May 4, 1977. Our work was, therefore, limited to determining how the estimates were computed and reviewing their reasonableness considering the results of our prior audits.

We believe that the methods used by the military services to make the estimates were adequate. If all assumptions (for example, the

number of students to be trained) and computations were correct the estimate of \$24.3 million of additional reimbursements for fiscal year 1978 Defense appropriations would appear to be reasonable.

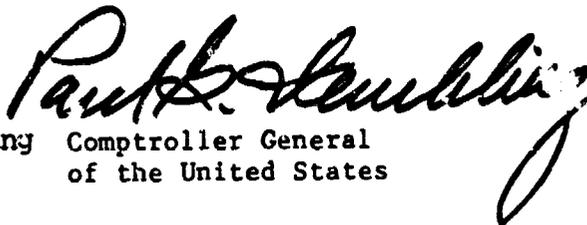
It should be noted that the Defense Department has not identified the total amount of reimbursements included in the fiscal year 1978 budget for foreign military training. We could not determine, therefore, whether adequate amounts of estimated reimbursements were offset against direct appropriations in the budget.

Defense officials advised us that the Department is developing budgeting and accounting systems which will enable them to identify estimated reimbursements for foreign military training and to accumulate reimbursements for training. Thus, information should be available in future years to track budget estimates and related reimbursements.

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As your office asked, we did not request formal written comments from the Department of Defense. We did informally show and discuss the contents of this report with Defense officials. Where appropriate their comments are included. Also, as requested by your office we are sending the report to the Senate Committee on Appropriations, Subcommittee on Defense.

Sincerely yours,



Acting Comptroller General  
of the United States

ESTIMATED AMOUNT OF INCREASES IN REIMBURSEMENTS  
BY MILITARY SERVICE APPROPRIATION APPLICABLE  
TO FOREIGN MILITARY TRAINING TO BE PROVIDED  
BY DEFENSE DURING FISCAL YEAR 1978

<u>Military service</u>	<u>Appropriation</u>		<u>Total</u>
	<u>Operation and maintenance</u>	<u>Military personnel</u>	
Air Force	\$ 6,600,000	\$ 8,100,000	\$14,700,000
Army	4,425,000	2,294,000	6,719,000
Navy	1,562,000	1,300,000	2,862,000
Marine Corps	<u>3,000</u>	<u>38,000</u>	<u>41,000</u>
Total	<u>\$12,590,000</u>	<u>\$11,732,000</u>	<u>\$24,322,000</u>